

095563

2.25, 01



REPORT TO THE CONGRESS

72-0225



X9
72

Substantial Savings By Obtaining
Competition In The Rental Of The
Government's Punched Card
Accounting Machine Equipment

B-115369

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

~~700639~~ 095563 JULY 15, 1971



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-115369

61
To the President of the Senate and the
Speaker of the House of Representatives

This is our report on substantial savings by obtaining competition in the rental of the Government's punched card accounting machine equipment. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Administrator of General Services; and the heads of other Federal departments and agencies.

A handwritten signature in cursive script that reads "James B. Peets".

Comptroller General
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

- 1 The General Services Administration (GSA) is responsible for acquiring the Government's automatic data processing equipment--including punched card accounting machine (PCAM) equipment--economically and efficiently.

PCAM equipment can be purchased or rented from leasing companies and manufacturers. Leasing companies purchase the equipment from the leading manufacturer--International Business Machines Corporation (IBM)--and then lease it at rates lower than IBM's. (See p. 6.)

Because the Government spends a large amount of money for the rental of PCAM equipment from IBM--\$47 million during fiscal year 1970--the General Accounting Office (GAO) examined into GSA's efforts to obtain savings through competition in the rental of PCAM equipment.

FINDINGS AND CONCLUSIONS

Competitive renting

Potential savings to the Government through the competitive rental of PCAM equipment are substantial, but GSA's efforts to achieve such savings have had limited success.

At various times between 1966 and 1969, GSA furnished technical assistance to several agencies which obtained PCAM equipment from leasing companies, but there was no Government-wide response by agencies to use leasing companies as a competitive source for the equipment. Leasing companies indicated to GSA that, if given the opportunity, they could have supplied considerably more of the Government's PCAM equipment needs. (See p. 9.)

GSA solicited proposals in January 1969 for the rental of 30,600 units of PCAM equipment that agencies had been renting from IBM. The solicitation resulted in the award of a Government-wide requirements contract to five leasing companies for 2,144 units of equipment, about 7 percent of the total desired.

GSA estimated that, by renting the 2,144 units from the leasing companies, the annual rental costs would be reduced from \$6.6 million to

\$4 million--an annual saving of \$2.6 million. GSA planned to periodically solicit proposals for the rental of additional equipment after agencies acquired the equipment offered under the requirements contract. (See pp. 9 and 10.)

Agencies' use of requirements contract

In April 1969, GSA told Federal agencies of the requirements contract and the potential savings from leasing equipment under the contract. The agencies, however, have shown reluctance to acquire their equipment under the contract despite the fact that use of the contract as the source of supply was mandatory under GSA regulations. As of January 1970, less than one third of the units offered under the requirements contract had been ordered. (See p. 13.)

Several agencies told GAO that they were concerned with a possible problem--could equipment with the special features needed be obtained from the leasing companies. The GSA official responsible for the day-to-day administration of the requirements contract, however, said that there had been relatively few instances of this problem. (See p. 11.)

The agencies were concerned also about possible administrative burdens and increased costs if, because of limited models and/or quantities offered by a leasing company, equipment would be rented from more than one supplier. GAO's review did not indicate a basis for this concern. (See p. 11.)

In August and September 1970, GSA issued further instructions which required agencies to rent the equipment available under the requirements contract. But, as of December 31, 1970, the agencies had ordered less than half the 2,144 units offered. (See p. 14.)

RECOMMENDATIONS OR SUGGESTIONS

GSA should closely monitor the effectiveness of its actions to determine whether additional measures are necessary to obtain maximum competition in the rental of PCAM equipment.

AGENCY ACTIONS AND UNRESOLVED ISSUES

GSA agreed and said that it had:

- Reviewed the agencies' PCAM-equipment inventories to specifically identify equipment that could be replaced at lower cost by leasing companies.
- Sent telegrams to agencies that had not fully used the requirements contract, advising them that they had no authority to continue to contract with IBM for leased equipment if similar equipment was available under the requirements contract.

- Sent letters to the same agencies requesting individual meetings between agencies' officials and GSA officials in order to reach determinations on each specific unit of equipment.
- Issued a solicitation to provide for a greater supply of PCAM equipment on a competitive basis during fiscal year 1972.

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO believes that this report will be of interest to the Congress because of the potential savings that can be effected by renting the Government's PCAM equipment through competitive contracting.

Tear Sheet

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1	INTRODUCTION 4
	Processing data with PCAM equipment 4
	PCAM equipment in the Government 6
	Authorities and responsibilities for acquisition of PCAM equipment 7
2	SUBSTANTIAL SAVINGS BY OBTAINING COMPETITION IN THE RENTAL OF PCAM EQUIPMENT 9
	Establishment of Government-wide requirements contract 9
	Initial reactions to requirements contract 10
	Agencies' views on requirements contract 10
	Leasing companies' views on requirements contract 12
	GSA efforts to have agencies use equipment available under requirements contract 13
3	CONCLUSIONS AND RECOMMENDATION 16
	Conclusions 16
	Recommendation to the Administrator of General Services 17
	GSA comments 17
4	SCOPE OF REVIEW 18
APPENDIX	
I	PCAM equipment used by the Government as of June 30, 1968, 1969, and 1970 21
II	PCAM equipment used by agencies as of June 30, 1970 22

APPENDIX

Page

III	PCAM equipment by manufacturer and type used by the Government as of June 30, 1970	23
IV	PCAM equipment offered by leasing companies under the requirements contract and agencies' orders at various dates through December 31, 1970	24
V	Letter dated June 5, 1969, from GSA to agencies concerning requirements contract for PCAM equipment	25
VI	Letter dated July 7, 1969, from GSA to agencies concerning requirements contract for PCAM equipment	26
VII	GSA bulletin dated August 21, 1970, to agencies concerning use of requirements contract for PCAM equipment	27
VIII	Letter dated September 18, 1970, to agencies concerning use of requirements contract for PCAM equipment	29
IX	Letter dated March 11, 1971, from the Administrator of General Services to the General Accounting Office	30
X	Principal officials of the General Services Administration responsible for the activities discussed in this report	34

ABBREVIATIONS

GAO	General Accounting Office
GSA	General Services Administration
IBM	International Business Machines Corporation
OMB	Office of Management and Budget
PCAM	punched card accounting machine

D I G E S T

WHY THE REVIEW WAS MADE

The General Services Administration (GSA) is responsible for acquiring the Government's automatic data processing equipment--including punched card accounting machine (PCAM) equipment--economically and efficiently.

PCAM equipment can be purchased or rented from leasing companies and manufacturers. Leasing companies purchase the equipment from the leading manufacturer--International Business Machines Corporation (IBM)--and then lease it at rates lower than IBM's. (See p. 6.)

Because the Government spends a large amount of money for the rental of PCAM equipment from IBM--\$47 million during fiscal year 1970--the General Accounting Office (GAO) examined into GSA's efforts to obtain savings through competition in the rental of PCAM equipment.

FINDINGS AND CONCLUSIONS

Competitive renting

Potential savings to the Government through the competitive rental of PCAM equipment are substantial, but GSA's efforts to achieve such savings have had limited success.

At various times between 1966 and 1969, GSA furnished technical assistance to several agencies which obtained PCAM equipment from leasing companies, but there was no Government-wide response by agencies to use leasing companies as a competitive source for the equipment. Leasing companies indicated to GSA that, if given the opportunity, they could have supplied considerably more of the Government's PCAM equipment needs. (See p. 9.)

GSA solicited proposals in January 1969 for the rental of 30,600 units of PCAM equipment that agencies had been renting from IBM. The solicitation resulted in the award of a Government-wide requirements contract to five leasing companies for 2,144 units of equipment, about 7 percent of the total desired.

GSA estimated that, by renting the 2,144 units from the leasing companies, the annual rental costs would be reduced from \$6.6 million to

\$4 million--an annual saving of \$2.6 million. GSA planned to periodically solicit proposals for the rental of additional equipment after agencies acquired the equipment offered under the requirements contract. (See pp. 9 and 10.)

Agencies' use of requirements contract

In April 1969, GSA told Federal agencies of the requirements contract and the potential savings from leasing equipment under the contract. The agencies, however, have shown reluctance to acquire their equipment under the contract despite the fact that use of the contract as the source of supply was mandatory under GSA regulations. As of January 1970, less than one third of the units offered under the requirements contract had been ordered. (See p. 13.)

Several agencies told GAO that they were concerned with a possible problem--could equipment with the special features needed be obtained from the leasing companies. The GSA official responsible for the day-to-day administration of the requirements contract, however, said that there had been relatively few instances of this problem. (See p. 11.)

The agencies were concerned also about possible administrative burdens and increased costs if, because of limited models and/or quantities offered by a leasing company, equipment would be rented from more than one supplier. GAO's review did not indicate a basis for this concern. (See p. 11.)

In August and September 1970, GSA issued further instructions which required agencies to rent the equipment available under the requirements contract. But, as of December 31, 1970, the agencies had ordered less than half the 2,144 units offered. (See p. 14.)

RECOMMENDATIONS OR SUGGESTIONS

GSA should closely monitor the effectiveness of its actions to determine whether additional measures are necessary to obtain maximum competition in the rental of PCAM equipment.

AGENCY ACTIONS AND UNRESOLVED ISSUES

GSA agreed and said that it had:

- Reviewed the agencies' PCAM-equipment inventories to specifically identify equipment that could be replaced at lower cost by leasing companies.
- Sent telegrams to agencies that had not fully used the requirements contract, advising them that they had no authority to continue to contract with IBM for leased equipment if similar equipment was available under the requirements contract.

- Sent letters to the same agencies requesting individual meetings between agencies' officials and GSA officials in order to reach determinations on each specific unit of equipment.
- Issued a solicitation to provide for a greater supply of PCAM equipment on a competitive basis during fiscal year 1972.

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO believes that this report will be of interest to the Congress because of the potential savings that can be effected by renting the Government's PCAM equipment through competitive contracting.

CHAPTER 1

INTRODUCTION

PROCESSING DATA WITH PCAM EQUIPMENT

PCAM equipment has been used by Government and industry for three quarters of a century. Its role has changed, however, since the advent of the electronic computer in the early 1950's. Although PCAM equipment was once the primary means for the automatic processing of data, today electronic computers are used for the majority of such tasks.

With the tremendous growth in computer data processing, the need for certain types of PCAM equipment has also increased--such as card punches and verifiers used to prepare data for input into computers. The need for other PCAM equipment, such as accounting machines, has decreased as the use of computers has increased.

Government and industry use 600,000 units of PCAM equipment:

- In support of computers--to punch, verify, and sequence cards for input to computers and to perform partial processing, such as editing, listing, and proving data.
- As stand-alone systems--to serve the needs of small activities when it is not economical to use computers.
- For special applications--to perform low-volume work and one-time jobs to avoid the need for more expensive means of processing.

Although devices are being developed and marketed which will provide more efficient methods of doing the work performed by PCAM equipment, it appears that PCAM equipment will continue to be used for many applications in the years to come by both Government and industry.

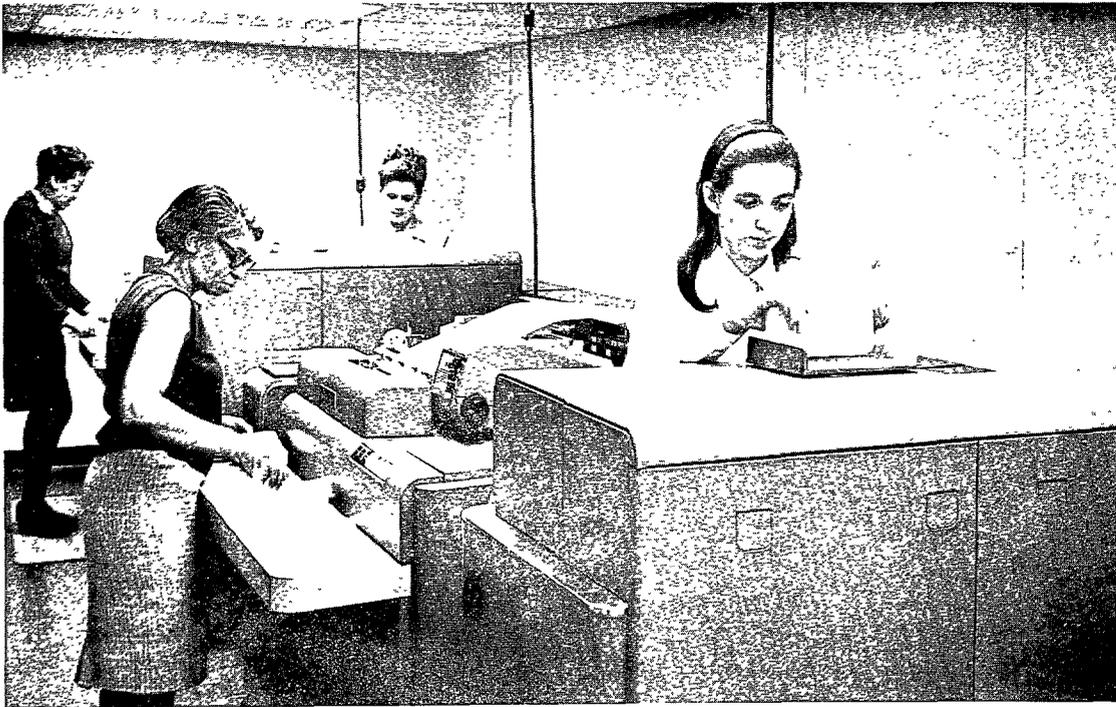
A data processing facility in a Government agency using PCAM equipment in support of a computer system is shown in the photographs on the following pages.



AN ELECTRONIC COMPUTER SYSTEM WHICH INCLUDES A CENTRAL PROCESSOR AND A VARIETY OF INPUT-OUTPUT DEVICES, SUCH AS MAGNETIC TAPE UNITS AND PRINTER.



CARD PUNCH MACHINES ON WHICH DATA FROM SOURCE DOCUMENTS IS ENTERED ON CARDS FOR MACHINE PROCESSING.



ACCOUNTING MACHINES AND RELATED PCAM EQUIPMENT THAT PERFORM DATA PROCESSING STEPS SUCH AS TABULATING, SORTING, MERGING, AND MATCHING OF CARDS.

PCAM equipment can be purchased or rented from leasing companies and manufacturers. Leasing companies purchase the equipment of the leading manufacturer of PCAM equipment, IBM. The companies then lease their equipment at rates below those offered by IBM for similar equipment. A management research firm stated in a December 1967 study that leasing companies offered discounts from IBM's rates because they believed that the equipment would have a longer useful life than the period allowed by IBM to recover its costs and make a profit.

About 100 companies are in the business of leasing automatic data processing equipment. Some deal mainly in computers and others in PCAM equipment. The largest of the companies leasing PCAM equipment has an inventory of about 40,000 units.

PCAM EQUIPMENT IN THE GOVERNMENT

GSA negotiates Federal Supply Schedule contracts each year with PCAM equipment manufacturers for the purchase and

rental of PCAM equipment. The Schedule contracts are published in catalog form and show the manufacturers' prices for all types and models of equipment offered and the terms and conditions for rental, maintenance, and purchase of the equipment. Agencies may place orders for their individual equipment needs against these contracts. During fiscal year 1970, expenditures for PCAM equipment rented under Schedule contracts amounted to \$55 million of which \$47 million was for equipment rented from IBM. Information was not available at GSA concerning Government expenditures for PCAM equipment rented from leasing companies outside of Schedule contracts.

At June 30, 1970, the Government was using 37,902 units of PCAM equipment at 2,541 installations. The number of PCAM units has decreased slightly during recent years. (See app. I.) An inventory of PCAM equipment owned and rented by Federal agencies as of June 30, 1970, is shown in appendix II.

Of the 37,902 units of PCAM equipment, 36,755, or about 97 percent, were manufactured by IBM. Of the 36,755 units, 28,192 were rented--an estimated 91 percent from IBM and 9 percent from leasing companies. (See app. III.)

Authorities and responsibilities for acquisition of PCAM equipment

Public Law 89-306, enacted in October 1965, gave GSA the responsibility for the efficient and economic acquisition of the Government's general-purpose automatic data processing equipment, subject to policy and fiscal control of the Office of Management and Budget (OMB). The law provides that GSA is not to interfere with agencies' determinations of equipment requirements and uses. Disagreements between GSA and the agencies are subject to review and decision by OMB.

OMB issued policy guidelines in May 1966 to establish the direction of GSA's efforts under Public Law 89-306. The guidelines provided that GSA assist the agencies in acquiring equipment and review their equipment acquisition procedures to determine areas where revised techniques and methods could achieve economies. The guidelines provided

specifically that GSA consider (1) the appropriateness of continuing the use of Schedule contracts for the rental, purchase, and maintenance of equipment and (2) the possibility that additional sources of supply could be cultivated to serve as competitive alternatives to exclusively acquiring equipment directly from manufacturers.

OMB amended the policy guidelines in July 1966 to provide that GSA be responsible for specific guidance to agencies for contractual arrangements with leasing companies. Specifically, GSA was to develop and monitor a program of contracting with leasing companies in lieu of contracting with equipment manufacturers when it was determined that this approach was in the best interest of the Government.

An amendment to OMB Circular No. A-54 dated June 27, 1967, requires agencies to consider leasing companies as a source of supply for ADP equipment, including PCAM equipment. In 1966 and 1967, GSA advised agencies that leasing companies were offering ADP equipment--computers and PCAM equipment--at substantial reductions from IBM rental rates.

CHAPTER 2

SUBSTANTIAL SAVINGS BY OBTAINING COMPETITION

IN THE RENTAL OF PCAM EQUIPMENT

At various times between 1966 and 1969, GSA furnished technical assistance to several agencies which obtained PCAM equipment from leasing companies, but there was no Government-wide response by agencies to use leasing companies as a competitive source for this equipment. As a result, the Government continued to rent nearly all of its PCAM equipment from IBM. Leasing companies had PCAM equipment available and indicated to GSA that they could have supplied considerably more of the Government's needs if given the opportunity.

GSA, therefore, in the latter part of 1968 decided to solicit proposals for the Government's PCAM equipment which was being rented under GSA's Schedule contract with IBM. GSA informed us that, because substantial discounts were expected and because the amount of equipment available from leasing companies at that time was less than the Government's overall needs, it believed that agencies would quickly obtain any equipment available under a competitive contract. GSA planned to periodically solicit proposals for additional equipment after agencies obtained the equipment offered under the requirements contract.

ESTABLISHMENT OF GOVERNMENT-WIDE REQUIREMENTS CONTRACT

GSA solicited proposals in January 1969 for the rental of 30,600 units of PCAM equipment that agencies were renting from IBM under GSA's Schedule contract. The solicitation resulted in awards to five leasing companies under a Government-wide requirements contract. Under the terms of the contract, the leasing companies were committed to furnish the quantities and models of equipment offered, and related maintenance services, to any agency at any location within the 48 contiguous States and Washington, D.C. The contract, which initially covered the period from March 21, 1969, through June 30, 1970, has been extended to June 30, 1971.

The five companies offered to lease 2,144 units of IBM equipment, about 7 percent of the units for which proposals were solicited. (See app. IV.) GSA estimated that, by renting the 2,144 units from the leasing companies, rather than under the Schedule contract with IBM, the Government's annual rental costs for the units would be reduced from \$6.6 million to \$4 million--an annual savings of \$2.6 million, or 39 percent.

INITIAL REACTIONS TO REQUIREMENTS CONTRACT

In April 1969, GSA sent special notices to agencies advising them of the requirements contract and of the potential savings from leasing PCAM equipment under the contract. Because agencies had placed few orders under the contract, GSA sent letters to the heads of agencies in June and July 1969 calling attention to the negligible action being taken. (See apps. V and VI.) GSA advised the agencies that the lack of action indicated that there may have been some misunderstandings as to the use of the contract. GSA pointed out that use of the contract was mandatory as the source of supply for the models of equipment offered for lease in the contract for both new requirements and substitutions for installed equipment rented from IBM. GSA also clarified the contract's maximum order limitation¹ of 75 units. The contract was not clear as to whether the limitation was applicable to an entire agency, a bureau, a program, or other organizational segment. GSA informed the agencies that the limitation applied to individual ordering offices.

AGENCIES' VIEWS ON REQUIREMENTS CONTRACT

During the first year the requirements contract was in effect, we asked several agencies why they had not ordered the equipment offered by the leasing companies. These discussions confirmed that there were misunderstandings concerning certain provisions of the requirements contract

¹GSA places maximum order limitations in many of its contracts in order that large volume purchases can be given individual attention with the objective of obtaining price concessions.

dealing with the mandatory use of the contract and the maximum order limitation.

The agencies expressed concern as to whether the leasing companies could furnish equipment with needed special features. They expressed concern also about possible administrative burdens and increased costs at the installation level if, because of limited quantities or models of equipment available at any given time from one leasing company, equipment were rented from more than one supplier. They stated that an installation would have to deal with more than one supplier for maintenance services and billings. The agencies, however, did not cite any examples of actual problems that had been experienced in obtaining special features or of increased administrative burdens and costs.

The GSA official responsible for the day-to-day administration of the requirements contract advised us that he had encountered relatively few instances where an agency was unable to obtain equipment from a leasing company because required special features were not available. An official of the leasing company offering the largest number of units under the requirements contract informed us that his company had equipment having the most common special features and had made every effort to furnish special features needed by its customers.

The GSA official also informed us that representatives of the agencies' installations had not indicated that any significant administrative burdens and increased costs were attributable to the installations having to deal with more than one supplier. Our observations at agencies' installations also indicated that no particular administrative burdens or increased costs had resulted from multiple-supplier support.

During our review we noted that six agencies with GSA technical assistance had requested proposals for the rental of PCAM equipment from leasing companies at various times between 1966 and 1969. These agencies provided potential suppliers with listings of installed equipment rented from IBM and specified the type, model, special features, and location of the equipment. Suppliers were given the alternative of purchasing the installed equipment from IBM and

leasing it back to the agencies or replacing the installed equipment with company-owned units. Contracts awarded by these agencies resulted in estimated annual savings of \$473,000.

LEASING COMPANIES' VIEWS ON
REQUIREMENTS CONTRACT

We talked with officials of the three leasing companies which had offered most of the equipment under the requirements contract. Each of these companies had also supplied equipment under the individual agency contracts mentioned above. The officials expressed concern about the limited number of units that had been ordered by agencies under the requirements contract. They pointed out that their companies were required to have available through the period of the contract all the units offered and that, consequently, they had a large quantity of idle equipment in storage.

The officials advised us that the most favorable rental rates for equipment could be offered when proposals were solicited for specific items of equipment at specific locations. They stated that such information enabled the companies to estimate costs more closely than when proposals were solicited, as in the case of the requirements contract, without regard to what, when, and where equipment would be installed.

GSA EFFORTS TO HAVE AGENCIES USE EQUIPMENT
AVAILABLE UNDER REQUIREMENTS CONTRACT

Although GSA had emphasized to agencies the mandatory aspects of the requirements contract and the savings available, as of January 1970 less than one third of the units offered had been ordered. In March 1970 we suggested to GSA that consideration be given to soliciting proposals on an installation basis. We pointed out that this method of contracting might offer several advantages over the requirements contract method, such as

- minimizing rental rates because suppliers would be better able to estimate costs when specific equipment requirements and specific locations were known,
- providing continuing opportunities to obtain additional equipment which would be available from the suppliers, and
- increasing competition by permitting participation of smaller leasing companies that could provide equipment only in certain geographical areas.

This method of procurement appeared to overcome some of the problems that concerned both the agencies and the leasing companies.

GSA advised us in April 1970 that it shared our concern about the lack of use of the requirements contract and that it was exploring alternate methods of contracting, including the method we had suggested.

By June 1970 agencies had ordered only 826 of the 2,144 units of equipment offered by the five leasing companies. GSA negotiated 1-year extensions of the requirements contract with the companies to allow additional time for agencies to order the remaining units of equipment.

GSA issued a Federal Property Management Regulation bulletin, dated August 21, 1970, which reiterated and further clarified its restrictions against agencies' placing orders for the rental of new equipment or renewing the rental of installed equipment under the Schedule contract with IBM if

like equipment was available under the requirements contract. (See app. VII.)

In September 1970, GSA provided each agency with a listing of the PCAM equipment being rented by the agency from IBM and requested that a review be made to identify those units that could be economically replaced under the requirements contract. Agencies were instructed that, if for some reason the equipment under the requirements contract could not be used, it would be necessary for the agencies to request from GSA a delegation of procurement authority to retain the installed equipment. (See app. VIII.) By September 30, 1970, agencies had ordered only 921 of the 2,144 units offered under the requirements contract.

In December 1970 we discussed with GSA officials the agencies' responses to the August and September 1970 instructions. We were informed that the following actions were being taken which, officials believed, would help ensure the full use of the requirements contract. GSA was:

- Restricting the scope of the Schedule contract with IBM to exclude types and models of PCAM equipment available under the requirements contract. For this equipment, the Schedule contract with IBM, approved in October 1970, contained the provision that a delegation of procurement authority from GSA would be required before (1) renewing equipment rentals or (2) placing new equipment orders against the Schedule contract.
- Advising IBM that purchase orders from agencies should not be approved for equipment that was available under the requirements contract unless accompanied by a delegation of procurement authority from GSA.

GSA officials also informed us that preliminary steps had been taken to readvertise the Government's PCAM-equipment needs for a new requirements contract to become effective in July 1971. They stated that GSA expected that the new requirements contract would result in additional quantities and models of equipment becoming available to the

Government. They stated also that proposals would be requested on a regional basis, which should provide for increased competition from smaller leasing companies that cannot compete on a nationwide basis.

We also asked the GSA officials for their views on obtaining proposals on an individual installation basis, as suggested by us in March 1970. They advised us that this method of contracting would entail some additional administrative costs and, therefore, that an evaluation of the results of the actions being taken and planned would be necessary before giving further consideration to contracting on an installation basis.

During the period October 1, 1970, to December 31, 1970, agencies placed orders for an additional 109 units under the requirements contract, with the result that orders were made for 1,030 of the 2,144 units offered.

CHAPTER 3

CONCLUSIONS AND RECOMMENDATION

CONCLUSIONS

The Government spends about \$47 million annually for the rental of PCAM equipment under IBM's Schedule contract. Agencies, for the most part, have taken only limited advantage of opportunities to obtain PCAM equipment through competitive contracting.

We believe that the limited use of the requirements contract by agencies has had an adverse effect on GSA's efforts to foster increased competition for the rental of the Government's PCAM equipment. In our opinion, the amount of equipment offered by leasing companies to the Government is largely dependent upon convincing potential suppliers that Government agencies are willing to rent equipment from them rather than from the manufacturer. On the basis of discounts averaging about 39 percent offered by suppliers under the requirements contract, we believe that substantial savings can be realized by obtaining competition in the rental of a large portion of the Government's PCAM equipment.

Agencies have expressed concern about possible problems by obtaining PCAM equipment from leasing companies, although they did not cite any examples of such problems. Agencies renting equipment from leasing companies have found that the equipment and services provided were satisfactory.

GSA has taken certain actions which it believes should result in agencies' obtaining more of their equipment from leasing companies. In view of past difficulties, we believe that GSA should closely monitor the effectiveness of the actions to determine whether additional measures are necessary. It may be that the method of contracting that we suggested in March 1970--competitive contracting on an installation basis--may be more effective.

RECOMMENDATION TO THE
ADMINISTRATOR OF GENERAL SERVICES

We recommend that GSA closely monitor the effectiveness of its actions to determine whether additional measures are necessary to obtain maximum competition in the rental of PCAM equipment.

GSA COMMENTS

By letter dated March 11, 1971 (see app. IX), the Administrator of General Services informed us that GSA agreed with our findings and recommendation and stated that GSA had:

- Reviewed the status of agencies' PCAM-equipment inventories to specifically determine the action required to identify equipment that could be replaced at lower cost by leasing companies.
- Sent telegrams to agencies which, according to GSA records, had not fully utilized equipment available under the requirements contract. These telegrams advised the agencies that they had no authority to continue to contract with IBM for leased equipment if similar equipment was available under the requirements contract.
- Sent letters to the same agencies requesting individual meetings between agencies' officials and GSA officials in order to reach determinations on each specific unit of equipment.
- Issued a solicitation to provide for supplying PCAM equipment on a competitive basis during fiscal year 1972.

CHAPTER 4

SCOPE OF REVIEW

Our review included an examination of the provisions of Public Law 89-306, OMB circulars and guidelines, GSA regulations and contracting procedures, and selected agencies' procedures relating to the acquisition of PCAM equipment.

We interviewed officials of GSA; the Departments of the Army, Navy, and Air Force; the Department of Agriculture; the Department of Commerce; the Department of Health, Education, and Welfare; the Department of the Treasury; and the Veterans Administration. We also held discussions with representatives of three leasing companies. We reviewed records of the selected agencies and examined documents supplied by leasing companies. Our review was made primarily in the Washington, D.C., area, at the central offices of GSA, the headquarters' offices of the selected agencies, and the offices to two of the three leasing companies.

Our review did not include an examination of the agencies' justifications for the acquisition of PCAM equipment or of the uses being made of the equipment.

APPENDIXES

PCAM EQUIPMENT USED BY THE GOVERNMENT

AS OF JUNE 30, 1968, 1969, AND 1970

<u>Type of unit</u>	<u>Number of units at June 30</u>		
	<u>1968</u>	<u>1969</u>	<u>1970</u>
Card punches	21,300	21,595	21,384
Card verifiers	7,299	7,227	6,691
Tape-punch verifiers	409	344	357
Sorters	3,385	3,403	3,173
Collators	1,759	1,673	1,444
Reproducers	1,760	1,714	1,550
Interpreters	2,036	2,038	1,960
Accounting machines	1,043	927	769
Media converters	<u>589</u>	<u>481</u>	<u>574</u>
Total	<u>39,580</u>	<u>39,402</u>	<u>37,902</u>

APPENDIX II

PCAM EQUIPMENT USED BY AGENCIES AS OF JUNE 30, 1970

	<u>Units of equipment</u>		
	<u>Rented</u>	<u>Owned</u>	<u>Total</u>
IBM EQUIPMENT:			
Defense departments and agencies:			
Air Force	6,441	306	6,747
Army	6,135	3,377	9,512
Navy	5,671	559	6,230
Defense agencies	769	111	880
Civil departments and agencies:			
Agriculture	517	399	916
Atomic Energy Commission	577	1,629	2,206
Commerce	421	264	685
District of Columbia Govern- ment	257	-	257
General Services Administra- tion	167	124	291
Health, Education, and Wel- fare	2,249	197	2,446
Housing and Urban Development	103	-	103
Interior	408	54	462
Labor	102	-	102
National Aeronautics and Space Administration	470	531	1,001
Post Office	207	47	254
Transportation	326	130	456
Treasury	2,412	200	2,612
Veterans Administration	280	546	826
Other civil agencies	680	89	769
Total	<u>28,192</u>	<u>8,563</u>	<u>36,755</u>
EQUIPMENT OF OTHER MANUFACTURERS	<u>790</u>	<u>357</u>	<u>1,147</u>
TOTAL	<u>28,982</u>	<u>8,920</u>	<u>37,902</u>

PCAM EQUIPMENT BY MANUFACTURER AND TYPE

USED BY THE GOVERNMENT

AS OF JUNE 30, 1970

<u>Type of units</u>	<u>Number of rented units manufactured by</u>		<u>Number of owned units manufactured by</u>		<u>Total units</u>
	<u>IBM</u>	<u>Others</u>	<u>IBM</u>	<u>Others</u>	
Card punches	16,094	263	4,955	72	21,384
Card verifiers	5,106	66	1,509	10	6,691
Tape-punch verifiers	61	102	19	175	357
Collators	1,074	24	342	4	1,444
Sorters	2,293	57	816	7	3,173
Reproducers	1,108	58	379	5	1,550
Interpreters	1,682	11	261	6	1,960
Accounting machines	526	70	169	4	769
Media converters	<u>248</u>	<u>139</u>	<u>113</u>	<u>74</u>	<u>574</u>
Total	<u>28,192^a</u>	<u>790</u>	<u>8,563</u>	<u>357</u>	<u>37,902</u>

^aAn estimated 2,600 units of this equipment are being rented from leasing companies.

APPENDIX IV

PCAM EQUIPMENT OFFERED BY LEASING COMPANIES
 UNDER THE REQUIREMENTS CONTRACT AND AGENCIES' ORDERS
 AT VARIOUS DATES THROUGH DECEMBER 31, 1970

Type of unit	Number of units solicited by GSA	Number of units offered by leasing companies	Cumulative units ordered through						
			1969			1970			
			6-30	9-30	12-31	3-31	6-30	9-30	12-31
Card punches	11,164	512	24	57	117	183	214	224	243
Card verifiers	3,898	349	22	133	185	190	212	227	241
Collators	316	87	2	14	22	26	27	32	41
Sorters	2,447	145	9	56	95	103	109	121	134
Accounting machines	713	580	2	41	105	120	122	133	150
Reproducers	1,239	426	8	56	112	132	138	176	211
Calculators	<u>45</u>	<u>45</u>	<u>-</u>	<u>1</u>	<u>3</u>	<u>4</u>	<u>4</u>	<u>8</u>	<u>10</u>
Total units of 34 models on which bids were received	19,822	2,144	67	358	639	758	826	921	1,030
Total units of 54 models on which no bids were received	<u>10,789</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>30,611</u>	<u>2,144</u>	<u>67</u>	<u>358</u>	<u>639</u>	<u>758</u>	<u>826</u>	<u>921</u>	<u>1,030</u>

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION*Federal Supply Service*
Washington, D.C. 20406

COPY OF LETTER SENT TO AGENCIES

JUN 5 1969

Dear

Recently, the General Services Administration awarded a Requirement Contract for thirty-four selected types and models of Punched Card Accounting Equipment at prices lower than the current IBM Federal Supply Schedule. A special notice to this effect was mailed to all ordering offices on April 1, 1969. On May 9, 1969, a schedule of this Requirements Contract Award was mailed.

The instructions contained in the above referenced material requested agencies to contact the General Services Administration for information as to who the orders should be placed with. To date agency reaction has been negligible. There are approximately 2000 machines in these awards and price discounts from the IBM Federal Supply Schedule range from 5% to 51% depending upon the type and model of equipment. These contracts are a primary source of supply and considerable savings can be made, not only on the installed leased equipment, but also if new requirements were for these specific types and models.

Attached for your use is a summary tabulation prepared from the Management Information System. It represents selected types and models of equipment installed and being leased by your agency as of June 30, 1968, and which are comparable to the equipment included in the contract awards.

In view of above, we suggest that immediate consideration be given toward gaining maximum advantage of the more favorable prices. If additional information or assistance is required, Mr. Charles Lynham, Code 16-78510 may be contacted.

Sincerely,

(Signed) L. E. Spangler

L. E. SPANGLER
Acting Commissioner*Keep Freedom in Your Future With U.S. Savings Bonds*

APPENDIX VI

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, D.C. 20405
COPY OF LETTER SENT TO AGENCIES



JUL 7 1969

Dear

Recently the General Services Administration awarded a Requirement Contract for thirty-four selected types and models of Punched Card Accounting Equipment at prices lower than the current IBM Federal Supply Schedule. A special notice to this effect was mailed to all Government ordering offices on April 1, 1969. On May 9, 1969, a copy of this Requirements Contract Award was mailed to these offices. On June 5, 1969, by letter to your agency, Mr. L. E. Spangler, Acting Commissioner of the Federal Supply Service at that time, advised your agency of the benefits that the Government could obtain from the use of the contract.

The continued lack of agency reaction indicates that there may be some misunderstanding as to the use of this contract by the Government. The contract is a mandatory source of supply for all Federal agencies. It requires agencies to order machines to replace currently installed leased machines of the same type and model, as well as for new rental requirements for the same type and model when the requirements fall within the maximum order limitation contained in the contract. Agencies should not place orders against existing Federal Supply Schedule Contracts or enter into any separate contract for the items in the Requirements Contract until advised to the contrary by the General Services Administration.

An additional point which may require clarification is the Maximum Order Limitation. It pertains to individual ordering offices, e.g., if an individual ordering office's requirements do not exceed a total of 75 machines, then the contract must be used. However, if the total requirements of an individual ordering office exceed 75 machines, or where feasible, the agency, in its judgment, consolidates the requirement and it exceeds 75 machines, a request to the General Services Administration for a delegation of procurement authority to proceed should be submitted.

I urge your immediate consideration and action to gain maximum advantage of the more favorable prices contained in the Requirements Contract. If additional information or assistance is required by your staff, Mr. Charles Lynham, Code 16-78510, may be contacted.

Sincerely,

(Signed) Robert L. Kunzig

Robert L. Kunzig
Administrator

Keep Freedom in Your Future With U.S. Savings Bonds

GENERAL SERVICES ADMINISTRATION
WASHINGTON, D. C. 20405

August 21, 1970

GSA BULLETIN FPMR E- 84
 SUPPLY AND PROCUREMENT

TO : Heads of Federal Agencies

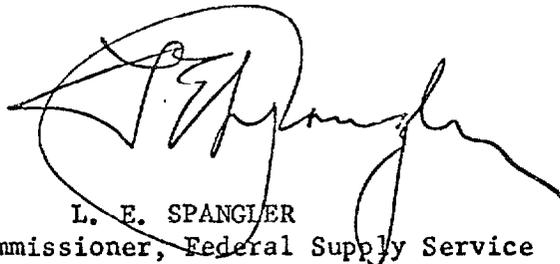
SUBJECT: Use of GSA requirements type contracts for punched card
 accounting machines (PCAM)

1. Purpose. This bulletin announces the availability of requirements type contracts executed by GSA for PCAM rental and provides guidance for the use of such contracts.
2. Expiration date. This bulletin contains information of a continuing nature and will remain in effect until canceled.
3. Background. GSA has executed requirements type contracts with five leasing firms for certain types and models of PCAM manufactured by International Business Machines Corp. (IBM) at prices lower than those in the current IBM Federal Supply Schedule contract.
4. Mandatory use. These GSA requirements type contracts are mandatory on all Federal agencies and contain provisions for their use. Due to the limited quantities of machines available, instructions to ordering offices require that they obtain an authorization from GSA prior to placing orders against these contracts. Any deviation from the provisions of the contracts, including renewal of leases with IBM or the establishment of new leases for additional PCAM equipment, may be pursued only after a delegation of ADPE procurement authority has been obtained from GSA in accordance with the provisions of FPMR 101-32.404. Agencies should consolidate their requirements for PCAM when requesting a delegation of procurement authority. The following types of PCAM are covered by the contracts:

<u>Machine Type</u>	<u>Model No.</u>	<u>Machine Type</u>	<u>Model No.</u>
024	1, 2	403	A1
047	1	407	A1, A2, A3, E4, E8
056	1, 2		
077	1	419	A1
082	1, 50	514	1, 2, 3
084	1	519	1, 2, 3
085	1	523	1, 2
088	2	602	1
089	1	604	1
402	A1, 550		

APPENDIX VII

5. Availability. Copies of the contracts (not contractors' price lists) are distributed to recipients of the schedule FSC Group 74, Part VI. Additional copies are available from GSA regional offices or from the General Services Administration (FTPG), Washington, D.C. 20406 or by calling (703) 557-8777. Additional information concerning use of these contracts may be obtained by writing to the above address.



L. E. SPANGLER
Acting Commissioner, Federal Supply Service

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION*Federal Supply Service*
Washington, D.C. 20406

COPY OF LETTER SENT TO AGENCIES

SEP 18 1970

Dear

On August 21, 1970, the General Services Administration released a Federal Property Management Regulation Bulletin E-84, which restricts the procurement authority of all agencies from making new procurements or renewing the lease of presently installed punched card accounting machine (PCAM) equipment, if similar gear is located on one of the five existing PCAM requirements contracts.

We are attaching a Management Information System (MIS) printout of the PCAM equipment, by type, model and location, which is being leased by your agency from IBM. It is requested that you review the attached list and ascertain those pieces of equipment that can be economically replaced from the requirements contracts, and place your request in accordance with existing instructions. If, for some reason, the equipment located on the requirements contracts can not or should not be used as a replacement, it will be necessary for you to request a delegation of ADPE procurement authority to retain the presently installed equipment.

If you do not have copies of the requirements contracts, we suggest that you obtain them from the GSA Regional Office serving your area.

Questions should be directed to Mr. James F. Hennessey (IDS 16-78777 or 557-8777) of our ADP Procurement Division.

Sincerely,

(Signed) L. L. Leeper

Acting Commissioner
Federal Supply Service*Keep Freedom in Your Future With U.S. Savings Bonds*

APPENDIX IX

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, D.C. 20405



MAR 11 1971

Honorable Elmer B. Staats
Comptroller General of the
United States
General Accounting Office
Washington, DC 20548

Dear Mr. Staats:

This is in reply to your letter of January 22, 1971, enclosing a copy of a proposed draft report to the Congress on "Unrealized Savings in the Rental of the Government's Punched Card Accounting Equipment." You asked for our review and comments before releasing the report.

We have reviewed the draft report and in general agree with it and the conclusions and recommendations contained therein. Accordingly, we are enclosing as separate enclosures the actions that we have taken on these recommendations.

If we can provide any additional explanatory information, please let us know.

Sincerely,

A handwritten signature in dark ink, appearing to read "Robert L. Kunzig". The signature is written in a cursive style and is positioned above the typed name.

Robert L. Kunzig
Administrator

3 Enclosures

Keep Freedom in Your Future With U.S. Savings Bonds

Enclosure 1

In regard to the first recommendation on page 13 of the draft report that GSA "monitor the effectiveness of its recent actions to determine whether additional actions are necessary to obtain maximum competition for the rental of the Government's PCAM equipment needs," GSA has reviewed the status of all agencies' inventories of punched card accounting machine (PCAM) equipment to specifically determine what additional steps would be required to identify equipment currently in the inventory which could be replaced with lower cost equipment supplied by leasing companies.

Telegrams were sent to nine (9) civil agencies on December 24, 1970, who, according to our records, had not fully utilized equipment available from the five existing PCAM requirements contracts. A similar telegram was sent to the Department of Defense.

These telegrams (copy of one enclosed as Enclosure 2), advised the agencies that they had no authority to continue to contract with IBM for the PCAM equipment they were still leasing if that same equipment was available from the requirements contracts.

On January 20, 1971, we sent letters to the same agencies, requesting that individual meetings be held with members of their staffs and the Commissioner, Federal Supply Service, General Services Administration, in order to reach determinations on each specific piece of equipment.

To date we have held meetings with five (5) agencies. Additional meetings are scheduled with the other agencies. We expect to finish these meetings within the next ten days.

Our meetings with officials of the Department of Defense (the largest user of PCAM equipment) have resulted in a commitment from the Assistant Secretary of Defense (Comptroller) to complete all required actions within the next 30 days.

[See GAO note.]

In order to provide for future sources of supply for PCAM equipment on a competitive basis, we issued a solicitation on January 14, 1971, for Fiscal Year 1972. While this solicitation does not envision the specific methods of

GAO note: Deleted comments relate to matters which were discussed in the draft report but omitted from the final report.

APPENDIX IX

contracting suggested in the March 27, 1970, GAO letter, it does contain some of the methods suggested and will provide for offerors to respond on a geographical regional basis. We feel this will provide us with an effective contract. The closing date of this solicitation is March 12, 1971, (copy enclosed as Enclosure 3).¹ We plan to expeditiously negotiate contracts to be effective July 1, 1971.

¹GAO note: Enclosure 3 has not been included in this report.

COPY OF
ENCLOSURE 2

IN MARCH 1969 THE GENERAL SERVICES ADMINISTRATION ENTERED INTO REQUIREMENTS CONTRACTS FOR THE SUPPLY OF IBM MANUFACTURED PUNCHED CARD ACCOUNTING MACHINES WITH FIVE FIRMS OTHER THAN IBM. THESE CONTRACTS WERE NEGOTIATED IN AN EFFORT TO SAVE MONEY FOR GOVERNMENT AGENCIES AND OFFER SUBSTANTIAL SAVINGS UNDER THE PRICING CHARGED BY IBM FOR IDENTICAL EQUIPMENT WHICH IT LEASES.

THIS TWX CONCERNS THE PERSISTANT PROBLEM OF THE FAILURE OF AGENCIES TO ORDER ITEMS OF EQUIPMENT FROM THESE FIVE REQUIREMENTS CONTRACTS, WHILE CONTINUING TO USE IDENTICAL EQUIPMENT AT HIGHER PRICES FROM IBM. ALTHOUGH WE HAVE ATTEMPTED ON SEVERAL PRIOR OCCASIONS TO URGE ACTION IN THIS MATTER, FULL ADVANTAGE HAS NOT BEEN TAKEN OF THE POSSIBLE SAVINGS AFFORDED UNDER THE REQUIREMENTS CONTRACTS. WE HAVE INSTRUCTED IBM THAT IT CAN NOT HONOR ORDERS FOR FUTURE PERIODS OF RENTAL WITHOUT A GSA DELEGATION OF PROCUREMENT AUTHORITY, AS REQUIRED BY GSA BULLETIN FPMR E-84, DATED AUGUST 21, 1970. IBM MAY REMOVE ITS EQUIPMENT FROM YOUR INSTALLATIONS IN THE ABSENCE OF A VALID ORDER BASED ON A GSA DELEGATION OF PROCUREMENT AUTHORITY AND TAKE RECOURSE TO CLAIMS FOR USE OF ITS HIGHER COST EQUIPMENT WHICH CLAIMS WILL BECOME THE RESPONSIBILITY OF ORDERING OFFICES. QUESTIONS SHOULD BE REFERRED TO MR. JAMES F. HENNESSEY ON AREA CODE 703-557-8777.

ELLIOTT GOLD
DIRECTOR, ADP PROCUREMENT DIVISION

12/24/70

(Signed) L. E. Spangler
Acting Commissioner, FSS

APPENDIX X

PRINCIPAL OFFICIALS OF
THE GENERAL SERVICES ADMINISTRATION RESPONSIBLE FOR
THE ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
ADMINISTRATOR OF GENERAL SERVICES:		
Robert L. Kunzig	Mar. 1969	Present
Lawson B. Knott, Jr.	Nov. 1964	Feb. 1969
COMMISSIONER, FEDERAL SUPPLY SERVICE:		
H. A. Abersfeller	Mar. 1970	Present
Lewis E. Spangler (acting)	Dec. 1969	Mar. 1970
Arthur F. Sampson	June 1969	Dec. 1969
Lewis E. Spangler (acting)	May 1969	June 1969
H. A. Abersfeller	May 1964	May 1969

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

Copies are provided without charge to Members of Congress, congressional committee staff members, Government officials, members of the press, college libraries, faculty members and students. The price to the general public is \$1.00 a copy. Orders should be accompanied by cash or check.